

Marketing Segmentation and the Marketing Mix

Mass Marketing vs. Market Segmentation

- Sellers design products that appeal to most buyers
 - GOAL: appeal to as many types of consumers as possible
 - ADVANTAGES
 - Lower production costs
 - Lower promotion costs
 - DISADVANTAGES
 - Increased competition
 - More knowledgeable consumers
 - Improved marketing research methods
 - Cannot communicate with specific individual, household, or organization, creating **wasted advertising**
 - BENEFIT
 - Reaches audiences with common characteristics due to a shared interest in content of media vehicle
- Marketers divide total market for products into smaller, more specific groups
 - GOAL: tailor product, price, place, and promotion activities to a particular segment
 - ADVANTAGE
 - Able to tailor advertising to consumers' different needs and wants
 - DISADVANTAGES
 - Increased production costs
 - Increased inventory costs
 - Increased promotion costs
 - BENEFIT
 - Products marketed more efficiently, thus increasing sales

The Market Segmentation Process

- *Identifying* groups of people or organizations with certain shared needs and characteristics within the broad market
 - Behavioristic Segmentation
 - Geographic Segmentation
 - Demographic Segmentation
 - Psychographic Segmentation
- *Aggregating* (or combining) these groups into larger market segments according to their mutual interest in the product's utility

Behavioristic Segmentation

- Segmentation based on *purchase behavior*
 - User Status
 - Include nonuser, ex-user, potential user, first-time user, regular/loyal user
 - Brand loyal users require the least amount of advertising
 - Usage Rates
 - *Volume segmentation* measures consumers' usage and categorizes them as light, medium, or heavy users
 - Purchase Occasion
 - Regular occasion
 - Special occasion
 - Benefits sought/derived
 - Include high quality, low price, status, sex appeal, good taste, etc.
 - Prime objective of many consumer attitude studies and the basis for many successful ad campaigns
 - *Brand switching* occurs in response to consumers' different “need states”

Geographic Segmentation

- Segmentation based on *where consumers are located*
 - Regions
 - States
 - Cities
 - Rural Areas
- When marketers analyze geographic data, they study sales by region, country size, city size, specific locations, and types of stores.
- Important in local markets due to limited trading areas for marketers, such as local retail stores or political candidates

Demographic Segmentation

- Segmentation based on *statistical characteristics*, such as:
 - Sex: male, female
 - Age: children, teenagers, young adult, middle age, senior, elderly
 - Ethnicity: American, African, Indian, European, Asian, etc.
 - Education: 8th grade or less, high school, some college, college degree
 - Occupation: white collar, blue collar, service worker, farm worker
 - Income: low, middle, high
 - Life stage: single, married, with children, without children, older
- *Geodemographic segmentation* combines demographics with geographic segmentation to select target markets

Psychographic Segmentation

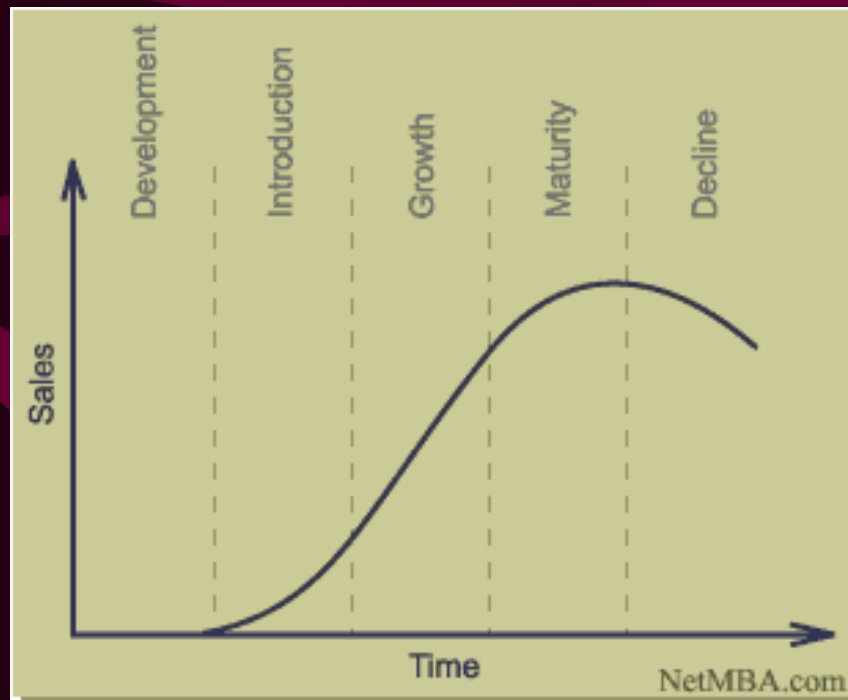
- Segmentation based on *values, attitudes, personality, and lifestyle*
- People classified according to what they feel, what they believe, the way they live, and the products, services, and media they use
- Many marketers use VALS (Values and Lifestyles) classification system created by Standard Research Institute
 - Breaks consumers into eight groups based on *primary motivation* and *resources*
 - Primary motivation includes principles (ideals), status (achievement), and action (self-expression)
 - Resources include psychological, physical, demographic, and material capacities that consumers can draw upon

The Marketing Mix

- After the target market is defined, marketers shape a basic product into a total *product (or service) concept*
 - Consumer's perception of a product or service as a bundle of utilitarian and symbolic values that satisfy functional, social, psychological, and other wants and needs
- The Marketing Mix uses strategic options to enhance the product/service concept
 - Product
 - Most important element of the marketing mix
 - Includes the way the product is designed and classified, positioned, branded, and packaged
 - Price
 - Amount charged for the good or service, including deals, discounts, terms, warranties, etc.
 - Affected by market demand, cost of production and distribution, competition, and corporate objectives
 - Place (or Distribution)
 - Includes direct and indirect distribution
 - Method of distribution must be consistent with brand's image
 - Promotion (or Communication)
 - Product, price, and place must be determined before planning marketing communications
 - Includes all marketing-related communications between a seller and a buyer

The Product Element: Product Life Cycle

- Products pass through a *Product Life Cycle*
 - Development Phase
 - Company develops or alters products to meet current and future market demands
 - Introduction (Pioneering) Phase
 - Company incurs costs for educating customers, building widespread dealer distribution, and encouraging demand



- Growth Stage
 - Characterized by rapid market expansion as more customers, stimulated by advertising and word-of-mouth, make purchases
- Maturity Stage
 - Marketplace becomes saturated with competing products and the number of new customers decreases, causing sales to reach a plateau
- Decline Stage
 - Products become obsolete due to new technology or changing customer tastes
 - Companies may cease all promotion and phase products out quickly

The Price Element

- Market Demand
 - If supply remains constant and demand increases, prices tend to increase
 - If demand drops below available supply, prices tend to decrease
 - Changes in market demand may affect advertising messages in a major way
- Production and Distribution Costs
 - As costs increase, product price increase must be passed on to the consumer
 - Common advertising strategy is to tout/hype materials used to help justify the price
- Competition
 - Consumer's more concerned with product's perceived price relative to competitors, rather than a product's actual price
 - Advertisers must maintain the value perception during periods of intense price competition
- Corporate Objectives and Strategies
 - When introducing new products, companies often set a high price initially to recover development and startup costs
 - Image advertising may be used to justify a higher price
 - As products enter their maturity stage, competitive advertising increases and prices tend to drop
- Variable Influences
 - Economic conditions, consumer income and tastes, government regulations, marketing costs, and other factors influence prices and advertising.

The Place Element

- Must be consistent with brand's image
- Companies use two basic methods of distribution: direct or indirect
 - Direct Distribution, such as Avon and insurance companies, occurs when companies sell directly to end users or consumers, without the use of wholesalers or retailers
 - Advertising burden is carried entirely by the manufacturer
 - Network (or multilevel) marketing, such as Amway, occurs when individuals act as independent distributors for a manufacturer or private-label marketer
 - Uses no media advertising, only word-of-mouth
 - Companies provide attractive product packaging, catalogs, brochures, and other sales material
 - Indirect Distribution includes a network of resellers, including wholesalers, retailers, manufacturers' representatives, brokers, jobbers, and distributors, who make products available to customers conveniently and economically
 - *Intensive distribution* makes products available to consumers at every possible location so that consumers can buy with a minimum of effort
 - *Selective distribution* limits product distribution to select outlets in order to reduce distribution and promotion costs
 - *Exclusive distribution* limits the number of wholesalers and retailers who can sell a product in order to gain a prestige image, maintain premium prices, or protect other dealers in a geographic area

The Promotion Element

- Companies can plan marketing communications, including advertising, once they determine product, price, and place
- Includes all marketing-related communications between the seller and the buyer
- Communication Mix
 - Personal communication includes all person-to-person contact with customers
 - Nonpersonal communication activities use mediums, such as advertising, direct marketing, some public relations activities, collateral materials, and sales promotion
 - Elements are blended into an *integrated marketing communications program*

The Promotion Element:

Nonpersonal Communication Activities

- Personal Selling
 - Important in business-to-business (B2B) marketing
 - Establishes face-to-face situation in which the marketer can learn firsthand about customer wants and needs
 - Customers find it harder to say “no” in face-to-face sale
- Advertising
 - Mass or nonpersonal selling
 - Purpose is to inform, persuade, and remind customers about particular products and services
 - Important factors for advertising success
 - High primary demand trend
 - Chance for significant product differentiation
 - Hidden qualities highly important to customers
 - Opportunity to use strong emotional appeals
 - Substantial sums available to support advertising

The Promotion Element:

Nonpersonal Communication Activities

- Direct Marketing
 - Growing rapidly as companies discover the benefits of control, cost efficiency, and accountability
 - Includes telemarketing, which increases productivity through person-to-person phone contact, and direct mail marketing, that communicates through catalogs and mail ads
- Public Relations
 - Informs various audiences about the company and its products and builds corporate trustworthiness and image
 - Publicity, such as news releases and feature stories in newspapers or news programs
 - Special Events, such as open houses, factory tours, VIP parties, and grand openings
 - Extremely credible brand-building tools that should always be integrated into a company's communications mix

The Promotion Element:

Nonpersonal Communication Activities

- Collateral Materials
 - Produced by companies to integrate and supplement their advertising or public relations activities
 - Include booklets, catalogs, brochures, films, sales kits, promotional products, and annual reports
 - Should always be designed to reinforce the company's image or brand position
- Sales Promotion
 - Designed to supplement the marketing mix for short periods of time
 - Aimed at stimulating customers or members of the distribution channel to some immediate behavior
 - Includes trade deals, free samples, displays, trading stamps, sweepstakes, cents-off coupons, premiums, etc.
 - Used primarily as a tactical adaptation to some external situation, such as new product introductions, competitive pressure, changing seasons, or declining sales